

## Retirement FAQ's

November 29, 2006

Legislation provides options to employees for the use of existing sick leave and converted sick leave balances at the time of retirement. The retiring employee should be familiar with the options in order to make decisions that best fit his or her future needs. The following discussion is designed to answer many commonly-asked questions. State agencies that have a Human Resource Department are also available to answer questions concerning sick leave options and calculations and to help complete the retirement worksheet.

Please remember that each retiring employee has unique circumstances that will alter the approach taken to cashing out and utilizing accrued hours.

***Q. Briefly, what benefits are available to me when I retire?***

- A.** Any unused balances of annual leave and excess leave will be distributed. If you are classified as FLSA Non-Exempt (you receive overtime at time-and-a-half), accrued compensatory hours will also be distributed. You may have these funds distributed as a lump sum payment to you or transfer a portion of the funds to your 401(k) or 457 Plan. If you choose the latter option, please read the important tax withholding information located on the first page of the 2006 Employee Retirement Checklist and familiarize yourself with the example.

Unused Sick Leave at retirement has a benefit attached to it. This benefit is outlined in House Bill 213 and described in chart A below. Sick leave and converted sick leave accrued prior to January 1, 2006 will be referred to as Program I. Sick leave and converted sick leave accrued on or after January 1, 2006 will be referred to as Program II.

Chart A

<b>Program I (Pre-2006 sick &amp; converted sick leave)</b>	<b>Program II (Post 2006 sick &amp; converted sick leave)</b>
Employee receives 25% of the value of sick leave as a mandatory employer contribution* into a 401(k) account.	Employee receives 25% of the value of sick leave as a mandatory employer contribution* into a 401(k) account.
The standard deduction is phased out over 5 years: 480 hours in 2006, 384 hours in 2007, 288 hours in 2008, 192 hours in 2009, 96 hours in 2010, 0 hours in 2011.	A deduction is not required on hours earned in program II; all hours after the 25% contribution are placed in the health reimbursement Account (HRA).
Remaining sick leave hours are set aside for the purchase of medical insurance at the rate of 8 hours for one month coverage.	The remaining sick leave is converted to a dollar value** and placed in an interest earning health reimbursement account (HRA) to pay for health related costs.
An employee who retires prior to age 65 may receive state paid health insurance until the Medicare age of 65 is reached. This feature is phased out over 5 years. The employee receives up to: 5 years in 2006, 4 years in 2007, 3 years in 2008, 2 years in 2009, 1 year in 2010, 0 years in 2011.	This feature is replaced in Program II with the health care reimbursement program.
Employee receives 25% of the value of converted sick	Employee receives 25% of the value of converted sick

leave as a mandatory employer contribution* into a 401(k) account. 75% can be used to purchase health insurance at the rate of 8 hours for one month's premium. It can also be used by the employee as annual or sick leave prior to retirement. The converted sick leave program ends on January 1, 2014.	leave as a mandatory employer contribution* into a 401(k) account. 75% is converted to a value** and is placed in a health reimbursement account at retirement. It can also be used by the employee as annual or sick leave prior to retirement. The converted sick leave program ends on January 1, 2014.
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\*Employer and employee 401(k) contributions are subject to IRS limitations.

\*\* The dollar amount placed in the health reimbursement program is based on the employee's Program II unused sick leave balance and the employee's hourly rate of pay at retirement. The bill provides that an employee's rate of pay for purposes of this contribution ... "shall not be less than the average rate of pay of state employees who retired in the same retirement system ... during the previous calendar year". For example, if program II were in effect for an employee who retires in 2006 in the non-contributory system, that amount would be \$22.55 (2005 average retiree rate) or the employee's hourly rate, whichever is greater.

Beginning in 2011, employees may make a one-time and irrevocable election to transfer all unused sick leave and converted sick hours from Program I hours into Program II hours.

***Q. When is the best time for me to retire, at the end of the year or the beginning of the year?***

**A.** The best time to retire is a decision that must be made by each individual. Since employees have varying sick leave balances, pay rates, and insurance needs, the employee should meet with a trained retirement expert prior to planning retirement.

Individuals typically find that if they retire at the end of the year, then more money is placed in their 401(k) plan (from sick leave balances) and less Program I sick leave is available to purchase insurance. If an individual chooses to retire at the beginning of the new year, less money is placed in their 401(k) plan (from sick leave balances) and more Program I sick leave may be available to purchase insurance. Program II HRA money may also fluctuate based on the chosen retirement date. The reason for this fluctuation in final numbers is based on IRS 401(k) limits and how individuals are affected.

***Q. Since 401(k) contributions are subject to IRS limits, what order is money placed in a 401(k) upon retirement?***

**A.** Employee and employer deferrals are placed into the 401(k) first, including one time final deferrals (such as annual leave and excess leave payouts). Next, 25% of all Program II sick leave balances are placed in the 401(k). Last, 25% of all Program I sick leave balances are placed in the 401(k). If the IRS limit is reached before the 25% mandatory contribution is placed in the 401(k), the remaining program II sick leave hours are converted to a dollar amount and placed in the HRA and the remaining program I sick leave hours may be used to purchase insurance at the 8 hours for one month rate.

***Q. How many hours of Program I sick leave do I use each month to purchase insurance coverage?***

**A.** If you are purchasing continued coverage under the existing health insurance policy, eight hours of unused Program I sick leave or converted sick leave will pay for one month of coverage for everyone covered under the plan (retiree, spouse, and dependent children).

Once the retiree turns age 65, there may be a need to purchase a Medicare supplement for the retiree and regular health insurance for the spouse (if the spouse is under age 65). In this case, eight hours per

person (16 hours total) equals one month of coverage. Dependent children are not eligible to be covered under the regular insurance policy once the retiree turns age 65.

If you are purchasing a Medicare supplement for both you and your spouse, eight hours *per person* equals one month of coverage. Dependent children are not eligible to be covered under a Medicare supplement.

***Q. Can I use Program II sick leave to purchase insurance coverage?***

**A.** Money that is placed in the Health Reimbursement Account (HRA) from Program II sick leave may be used for any medical related expenses including the purchase of health insurance.

***Q. I intend to retire at age 60 after 30 years of state employment. My spouse is three years younger than me. Can my spouse be covered under my insurance plan when my state paid insurance runs out and/or after I turn age 65?***

**A.** Assuming that you have accrued sick leave hours remaining, after the 25% 401(k) contribution and the standard deduction, you can obtain continued coverage for your spouse. You will give up 8 hours of Program I sick leave or converted sick leave for every month of coverage purchased for your spouse. You can also use Program II HRA money to purchase insurance for yourself or your spouse. Dependent children are not eligible for coverage once you turn 65 and are eligible for Medicare.

***Q. Is it true that leave payouts are taxed at a higher federal rate than wages?***

**A.** Leave payouts are taxed at a flat federal rate of 25%. Federal taxes may be deferred for individuals who choose to place funds in their 401(k) or 457 accounts in lieu of receiving cash. When funds are pulled out of the 401(k) or 457 accounts, they are taxed at that time based on the individual's tax bracket.

***Q. Based on what I have learned, I will have post-retirement health care coverage until I reach age 65. Since my spouse is older than me, will coverage for my spouse terminate when he/she reaches age 65 or continue until I am no longer covered?***

**A.** If you retire with two party or family coverage, PEHP coverage will continue for your spouse and other eligible dependents until you reach age 65 and are no longer eligible for state provided coverage. In this case, a spouse will receive PEHP coverage even though he or she will be older than age 65. While your spouse will be eligible for health insurance through both Medicare and PEHP, the state provided PEHP insurance remains primary until your PEHP coverage ends. If you have Program I hours available, you will only need to use 8 hours of sick leave or converted sick leave for the two of you until you turn 65. Once you reach 65 and are eligible for Medicare, you will be required to use 8 hours per person for a Medicare supplement until the hours are exhausted. Program II HRA money may also be used to purchase insurance at the dollar for dollar rate.

***Q. If my spouse predeceases me in death after I retire and I remarry, will my new spouse also receive health care coverage?***

A. You are eligible for the same coverage you had at the time of retirement. The following scenarios will help answer this question.

- You retire with family coverage for yourself, your spouse, and one child. While receiving your state-provided insurance, your spouse passes away and your dependent gets married. You would then receive single-party coverage. You remarry and have two dependent stepchildren. You may enroll the new spouse and stepchildren and regain your family coverage.
- Same scenario as above with the exception that you only want two-party coverage after remarrying. You may have two-party coverage because it is less than what you were eligible for at the time of retirement.
- You retire with single coverage. You later remarry and want two-party coverage. Your new spouse would not be eligible for coverage under your plan, because you only had single coverage when you retired.

***Q. When I reach 65 and enroll in the Medicare program, I will still have a child who will need healthcare coverage. How can I obtain coverage for such a dependent?***

A. The law states that when a retiree reaches age 65, only the spouse is eligible for health insurance coverage by purchasing coverage with unused sick leave or converted sick leave hours. Therefore, to obtain coverage for a dependent, you must find other alternatives.

***Q. Once I have retired and am purchasing either continuation coverage of health / life insurance or a Medicare supplement, what happens to my accrued sick leave hours if either my spouse or I die before it has been exhausted?***

A. The hours are still available to be used by the surviving spouse.

***Q. Speaking of Medicare supplements, which one can I purchase with my remaining sick leave hours?***

A. DHRM rules allow a retiree to use remaining sick leave hours to purchase the Medicare D PEHP Enhanced Plan at the rate of 8 hours of sick leave for a month's coverage

***Q. When does my employee insurance end and my retirement health / life insurance coverage begin?***

- A. Employees hired prior to 2/15/2003: Employee Insurance will end on the last day of the pay period following the pay period containing the last day worked or last day paid. Retirement insurance will begin the day after the employee insurance ends.

Employees hired after 2/15/2003: Employee Insurance will end on the last day of the pay period containing the last day worked or last day paid. Retirement insurance will begin the day after the employee insurance ends.

***Q. After I retire, what is the amount of the life insurance coverage I will receive?***

- A. You will receive the \$25,000 life insurance coverage provided by the state as long as you are also covered under the regular medical benefits provided as part of the paid-up insurance or until reaching age 65. Once reaching age 65, up to 25% of the state-paid coverage amount can be converted into an individual policy.

***Q. I currently purchase additional life insurance available through PEHP. Can I continue that after I retire?***

- A. You may convert up to 25% of the policy into an individual policy upon retirement. You will need to make the decision to purchase this life insurance within 60 days of the effective date of retirement. Since the premiums cannot be deducted from the monthly retirement check, you will be billed by PEHP.

***Q. I currently purchase life insurance for my dependents through PEHP. Can I continue after I retire?***

- A. No, dependent coverage for life insurance is discontinued at retirement.